

Prague, 24 June 2005

Standpoint of the Czech National Bank and the Czech Banking Association
on the guidelines for implementing
a common European framework for supervisory disclosure (CP05)

Introduction

The Czech National Bank and the Czech Banking Association welcome the efforts of the Committee of European Banking Supervisors to enhance the transparency of the regulatory and supervisory process and thus increase the convergence of supervisory practices across Europe.

We regard the proposed framework as a very good tool for easier comparison of national implementation of the new Directive in the area of capital adequacy. The structure of the presentation seems to be comprehensive and complete and to cover all relevant issues. The proposed content of the statistical data, procedures and formats enables comparison of the criteria and methodologies chosen by regulators in different countries. The principles used in the presentation also adequately ensure flexibility, timeliness, confidentiality and independence and do not radically increase the burden on supervisors.

The Czech National Bank and Czech commercial banks envisage using the disclosure framework, as the proposed architecture seems to be more accessible and user friendly for comparing national approaches to the CRD implementation.

We understand that the proposed templates are still preliminary and will be redesigned in line with the final approved CRD text. Nevertheless, the Czech National Bank has some technical/formal comments and questions that might help to improve the content or increase the understanding of the proposed framework.

Technical comments on the slides of the demo version

1. External Credit Assessment Institutions (ECAI) recognition process

- It would be useful to leave some space for indicating the recognised market segment of ECAs and also for additional comments.

2. Guidance for model validation

- There are several areas mentioned in the left-hand column of the table. Could you specify the exact parts of the Directive (articles, annexes, paragraphs) to which they relate? In our opinion these areas should be exactly stipulated in relation to the

Directive to prevent any potential overlapping on the one hand and non-coverage of certain areas on the other.

3. Guidance for model approval

- We envisage that only general information about the approval process will be disclosed, and not specific detailed comments regarding separate applications.
- We would recommend prescribing an outline (synopsis) clarifying which areas should be covered by the explanation or, alternatively, giving an example of fulfilment.

4. Slotting criteria

- We would recommend including one more row for a short comment where the criteria differ from Annex IV of the Basel document.
- Concerning the possible answers: a plain **yes** or **no** should not be the only possibilities. Another potential answer is **partially**. This also applies to the other tables – the answers of the respondents (national authorities) should be standardised, but they should allow a wider choice of options.

5. Additional information – List of core market participants

- As the provision in Annex VIII, part 3, paragraph 59 states, “core market participants” may include the entities mentioned in paragraph 59(h). However, this discretion is supposed to be deleted according to the ECOFIN proposal (instead of “may” the word “shall” will be used). Therefore, we suggest that the third table of additional information (“List of core market participants”) should not be disclosed on the CEBS site.

6. Mutual recognition tables showing the position of the member state in respect to another member state

- In order to make this table more user friendly, it might be useful to incorporate into the mechanics of this website the option of extracting the user’s own table (selection of which home and host countries should be shown in the table of mutual recognition).
- You might also consider in the upper triangle matrix filling in only the relevant cells, e.g. if a country is not in the position of home supervisor there is a question as to whether it is meaningful to determine mutual recognition of all other national discretions. In our opinion, it would be beneficial to allow a wider choice of possible answers (see also our comment in point 4). Instead of a Y/N answer, the national authorities might also have the option of indicating that they are not in the position of home or host supervisor for a particular country, in order to prevent any confusion and misunderstanding of the data disclosed in the table.

7. Statistical data

- To assure comparability of the data across EU countries more precise definitions are needed, especially as regards whether consolidated or unconsolidated data are to be disclosed. For the first template the residency basis is suggested, but for supervisory

purposes this concept is not normally used and the data in the rest of the templates do not correspond with the first template.

- We recommend using the COREP templates for defining the separate items, in order to ensure data comparability.
- Some parts of the credit risk template seem too detailed for disclosure, especially the data on the mitigation type and approach; we envisage disclosing only data relating to the approach used for the different risks, own fund requirements and exposure by classes.
- We are not sure what “financial collateral advanced method” means. This term is not used in the recasting of Directive 2000/12/EC. As “Consultation Paper (CP05) on the Framework for Supervisory Disclosure” implies, it could mean the “financial collateral comprehensive method” with “own estimates of volatility adjustments”. However, we are not sure whether it is possible to gain this information from the proposed COREP templates. Therefore, we are afraid that requiring such information would mean another burden on our banks. (As mentioned in CP05, paragraph 25 point iv., and in paragraph 93 as well, no additional reporting should be required on institutions.)
- A more precise definition of on-site inspections and overall assessments is needed. The practices in EU countries are very different in respect of the responsibility, scope and extent of on-site inspections, so the comparison could be misleading.

8. Contacts

- We recommend not using individual persons’ e-mail addresses, in order to avoid their misuse. A more practical solution would be to arrange a general address for this purpose in every country where all questions would be collected and then distributed to the responsible persons.

9. Further comments:

- The tables for AMA have still not yet been published.
- Concerning the terminology: using the term “model” for the IRB approach is not precise and could cause a misunderstanding, as there may be more rating models used by firms. We would prefer the term “IRB approach” in line with the Directive.